



# How does organizational learning matter in strategic business performance? The contingency role of guanxi networking



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## ARTICLE INFO

### Keywords:

Organizational learning  
Explorative and exploitative learning  
Business and political guanxi  
Strategic business performance  
China

## ABSTRACT

Based on organizational learning and networking theories, this study examines the effects of organizational learning (explorative and exploitative learning) and guanxi (business and political ties) on business performance. Business guanxi is classified as a channel networking tie, while political guanxi is categorized as a non-channel networking tie. Based on the experience of 120 Chinese firms, it is found that business guanxi positively moderates the effect of explorative learning on strategic performance. In contrast, though political guanxi positively enhances the effect of exploitative learning on strategic performance, it negatively affects the relationship between explorative learning and strategic performance. This study's outcomes indicate that, when doing business in the emerging economies such as China, only a proper fit between organizational learning and guanxi networking can yield a higher degree, or extent, of strategic performance. This study has implications for marketing managers and research concerning organizational learning, guanxi, business performance and standardization/customization strategies.

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## 1. Introduction

Knowledge is the fundamental strategic asset that companies can process and use to build their competitive advantage. The acquisition of knowledge is widely recognized as the antecedent of organizational performance, with research identifying specific elements of knowledge constituting a vital resource on which managers need to focus, and fully understand, if they are to develop competency (Dunphy, Turner, & Crawford, 1997; Epple, Argote, & Devadas, 1991; Lord & Ranft, 2000; Zahra, Ireland, & Hitt, 2000). Organizational learning is commonly conducted through either the exploratory or exploitative approach (Kim & Atuahene-Gima, 2010; Levitt & March, 1988). Exploratory learning refers to the acquisition and learning of information and knowledge from outside current customer and competitor boundaries, and often involves experimentation and risk-prone projects (Kim & Atuahene-Gima, 2010; March, 1991). Exploitative learning involves the acquisition and use of market information and knowledge within current customer and competitor boundaries (Levitt & March, 1988). Exploitative learning is often related to the “refinement and extension of existing competencies, technologies, and paradigms” (March, 1991, p. 85).

Researchers posit that guanxi networking helps firms to acquire information and resources which can be used to enhance their organizational learning activities and achieve predetermined performance objectives (Atuahene-Gima & Murray, 2007; Li, Zhou, & Shao, 2009; Wang & Chung, 2013). Guanxi networking is widely used by both domestic and foreign multi-national enterprises (MNEs) operating in China (Leung, Chan, Lai, & Nagi, 2011; Li, Poppo, & Zhou, 2008). A firm's managerial guanxi networking in and outside of the industry is particularly relevant to its organizational learning activities (Atuahene-Gima & Murray, 2007). In this study, we focus on both channel and non-channel guanxi ties. Channel (or business) guanxi represents a firm's top managerial ties with channel members such as suppliers, buyers, and distributors (Park & Luo, 2001; Su, Tsang, & Peng, 2009; Wang & Chung, 2013). Non-channel (or political) guanxi denotes top managerial ties with non-channel members such as political leaders at various levels of government, officials in ministries and other regulatory bodies (Peng & Luo, 2000; Sheng, Zhou, & Li, 2011; Wang & Chung, 2013).

Our review of the extant organizational learning and guanxi networking literature reveals several research gaps that require further exploration. First, existing organizational learning research largely focuses on economically or technologically more advanced countries (March, 1991; Yalcinkaya, Calantone, & Griffith, 2007), but research on emerging markets is limited (Atuahene-Gima & Murray, 2007; Kim & Atuahene-Gima, 2010; Li, Chu, & Lin, 2010). Due to the increasing importance of emerging markets to the global economy and certain unique

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phenomena that are observed in these countries (e.g., reliance on personal connections to conduct business; Xin & Pearce, 1996), it is important for researchers to examine the specific issues of organizational learning and business performance in the context of emerging economies.

Second, although research focusing on the emerging economies reveals an important relationship between performance and organizational learning (e.g., Kim & Atuahene-Gima, 2010), there is a gap in understanding how guanxi networking affects the relationship between organizational learning and performance. Omission of the role of guanxi networking in the organizational learning–performance dyad is significant as prior research indicates that guanxi networking constitutes a key aspect of generating resources, learning and social capital in the emerging economies (Acquaah, 2007; Adler & Kwon, 2002; Davies, Leung, Luk, & Wong, 1995; Li et al., 2009; Nahapiet & Sumantra, 1998; Peng & Luo, 2000; Sheng et al., 2011). Though prior research already asserts that guanxi networking may facilitate a firm's organizational learning process (Atuahene-Gima & Murray, 2007; Davies et al., 1995; Luo & Chen, 1997; Park & Luo, 2001; Tsang, 1998), extant research has not explored how and when the interactions of both factors can influence a firm's business performance. Thus, research examining the integrative effect of guanxi networking and organizational learning theories on business performance can advance the theoretical conceptualization of extant literature by revealing (a) whether guanxi networking can act as a moderator in the organizational learning–business performance paradigm, and (b) which of the alignment combinations can yield better business performance results.

Third, recent research focusing on the emerging economies explores the organizational learning–performance paradigm by primarily targeting financial performance, notably return on investment, profitability, sales growth and market share as the output variables (Kim & Atuahene-Gima, 2010; Li et al., 2010). In contrast, research focusing on exploring the strategic aspect of performance in its conceptualization phase is not readily available. Strategic performance denotes a firm's performance and competitive position relative to key competitors in critical areas, such as gaining a foothold, increasing firm and brand awareness and response to competitive pressure (Zou & Cavusgil, 2002). Strategic performance is an important consequence of explorative and exploitative learning and guanxi networking because the key objectives of these factors are to help firms create a unique and competitive capability in the market sectors where they operate. Despite this importance, no research has investigated whether strategic performance is a consequence of the alignment of organizational learning and guanxi networking. To address this key research gap, our study is designed to explore when and how the interactive effect of organizational learning and guanxi networking influences strategic performance.

To address the three aforementioned gaps, we rely on organizational networking and organizational learning theories to explore the moderating effect of managerial ties in the organizational learning–performance framework. Specifically, we focus on the interactive effects of (1) two types of learning, i.e., explorative and exploitative learning (March, 1991) and (2) two types of guanxi networking, i.e., channel (business guanxi) and non-channel (political guanxi) members (Luo, Hsu, & Liu, 2008) on business performance. Our samples are drawn from Chinese firms operating in both manufacturing and service sectors that are located in major Chinese geographical locations (Beijing, Shanghai, and Guangdong).

## 2. Theoretical background and research hypotheses

### 2.1. Exploitative organizational learning, business guanxi and business performance

Channel networking managerial ties may positively enhance the effect of exploitative learning on business performance. The key rationale for this relationship is that a firm's business guanxi with channel

members can provide information that may be used to enhance a firm's learning capability in the industry in which it operates. For example, the information acquired from a firm's channel partners, namely suppliers, distributors and buyers, enables firms to reduce their manufacturing, communication costing, and improve channel efficiency (Davies et al., 1995; Luo et al., 2008; Sheng et al., 2011). This information can help firms to build on features that already existed within the firm's current operation system and maximize the effectiveness of their existing systems (Su et al., 2009).

A number of other studies also indicate that a close relational tie with executives in a firm's business networking can enhance its *strategic conformity* with industry norms and recipes (Atuahene-Gima & Murray, 2007; Geletkanycz & Hambrick, 1997). This compliance facilitates a firm's exploitative learning process because managers operating in the same distribution channel often face similar business opportunities and share common threats (Sheng et al., 2011; Su et al., 2009). Having a close relational tie with other firms operating in the same channel allows firms to acquire the information that is vital for developing a higher cost efficiency system which can be shared by firms operating in the same industry. In their study of Chinese firms' operation, Luo et al. (2008) endorse this notion by indicating that strategic conformity between business guanxi and organizational learning exists in Chinese firms' supply chain systems. A proper fit between marketing orientation and business guanxi can enforce customer trust and obtain market intelligence in the supply chain. Marketing orientation is measured by various aspects of the relevant customer-related construct (e.g., customer satisfaction, customer needs) (Deshpandé & Farley, 1998). Importantly, exploitative learning from the supply chain can also be used to improve a firm's supply and delivery efficiency, a factor which, in turn, can facilitate the achievement of business performance objectives. Lastly, several other studies also report that channel guanxi may help firms to obtain network legitimacy in the Chinese business community (Rao, Chandy, & Prabhu, 2008; Sheng et al., 2011). High legitimacy is an important criterion for establishing an efficient supply and delivery system because it allows firms to obtain cooperation from their channel partners. Therefore, legitimacy arising from channel networking also facilitates a firm's exploitative learning process which results in a higher level of competitive industrial positioning.

In summary, a close relationship with top managers of other firms operating in the same channel networking paradigm is likely to assist firms in acquiring resources, information, and knowledge, that can be used to implement and formulate their exploitative learning process and boost the performance of their existing operational systems (Dyer & Nobeoka, 2000; Luo et al., 2008; Su et al., 2009; Yli-Renko, Autio, & Sapienza, 2001).

**H1.** The effect of exploitative learning on strategic business performance is stronger when business guanxi is stronger.

### 2.2. Explorative organizational learning, business guanxi and business performance

Extant literature has determined that a firm's managerial ties, when networking with firms in the relevant channel, can also accelerate a firm's explorative learning process. Prior study suggests that ties binding suppliers and customers can provide novel and experimental information that is critical to the success of explorative learning (Su et al., 2009). The findings of a number of empirical studies have provided pivotal guidance and a solid foundation for a hypothesis proposal related to explorative learning and business guanxi and their alignment effect on business performance.

In their study of the relation between business guanxi and organizational performance, Peng and Luo (2000) and Acquaah (2007) both assert that business guanxi with channel members can provide market and industry knowledge that is associated with experimentation,

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